Press release

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Indian corporate bond market can double by 2025

Innovation, access to foreign capital and enabling regulations key

Innovation can help double the supply of corporate bonds in the domestic market to ~Rs 65-70 lakh crore (outstanding) by March 2025. However, demand is expected to be Rs 60-65 lakh crore, which means foreign capital will be necessary to bridge the Rs 5 lakh crore gap likely, CRISIL said at its flagship Bond Market Seminar today.

The National Infrastructure Pipeline envisages Rs 111 lakh crore of investments between fiscals 2020 and 2025 for India's infrastructure build-out. Raising such humongous amounts – an onerous ask even in normal times – has become even more difficult because of the fiscal stress caused by the Covid-19 pandemic.

Given this, Indian capital market will have a big role to play in financing the great build-out through bonds.

Says Ajay Tyagi, Chairman, the Securities and Exchange Board of India (SEBI), "Indian Capital market over the years played a pivotal role in development of Indian Economy. As India is surging ahead to become an economic power house, Indian Capital Market is expected to play a greater role and remain in forefront in the days ahead. One of the crucial element of Indian Capital Market is Corporate Bond Market. Persistent effort by Government and SEBI in the last few years enabled a nascent Corporate Bond Market to move in the direction of maturity. The efforts on part of Government and SEBI is ongoing. I am quite optimistic that Indian Corporate Bond Market will summit greater heights in near future."

For the bond market to fill the gap, supply-side innovations such as pooling of assets, a well-capitalised Credit Guarantee Enhancement Corporation, and widespread adoption of the INFRA Expected Loss (EL) rating scale will be pivotal.

On the demand side, credit default swaps, retail participation, index linked funds, and mechanisms to improve liquidity will be enablers. Besides these, attracting foreign capital is crucial to bridging the emerging supply-demand gap, especially given the crowding-out by gilts stemming from the huge borrowing programme of the government.

CRISIL estimates innovations can help mobilise Rs 7-10 lakh crore via infrastructure bonds through fiscal 2025.

Says Ashu Suyash, MD & CEO, CRISIL, "Pooled assets bring scale, diversification benefits and flexibility to structure the cash flows. This can attract foreign capital and improve the confidence of bond market investors. Take-out financing facilitated by pooling of assets can help banks and other infrastructure-financiers to free up a portion of the over Rs 20 lakh crore credit outstanding in the sector for fresh lending to new projects. InvITs, co-obligor structures, covered bonds and securitisation are facilitative mechanisms for pooling assets."

A well-capitalised Credit Guarantee Enhancement Corporation can also enable issuances by lifting the standalone credit ratings of operational infrastructure assets to levels desired by investors. The capital invested in such a corporation will have a significant multiplier effect.

The INFRA EL ratings scale, which assesses the expected loss (EL) over the lifetime of an infrastructure debt instrument, helps investors deduce the typically low EL of such projects and thus kindle their interest.

CRISIL believes that the following measures will enable the Indian debt Capital Market to play a greater role in building the nation:

1. Encouraging widespread acceptance of the INFRA EL rating scale by ensuring that various regulators recognise the scale (the Insurance Regulatory Development Authority of India has already allowed investments in bonds issued by infrastructure companies rated not less than "A" along with EL1 as part of approved investments)
2. Implementing the draft Reserve Bank of India (Credit Derivatives) Directions, 2021, to facilitate the development of the credit default swaps (CDS) market. This will allow banks, NBFCs, insurers, pension funds, mutual funds, alternate investment funds and foreign portfolio investors to write CDS
3. Enhancing retail participation via tax sops to investments in debt mutual funds – similar to equity-linked savings schemes – and ensure parity in capital gains tax between equity and debt products.
4. Improving liquidity in the market by fast-tracking the setting up of the institution to provide secondary market liquidity to corporate bonds, develop the Limited Purpose Clearance Corporation for corporate bond repos, and allow corporate bonds as collateral under the Reserve Bank of India's liquidity adjustment facility window
5. Attracting both domestic and foreign capital through exchange traded funds and other index-linked bond funds, which offer lower costs, more transparency, better liquidity and potential to build diversified portfolios.
6. ESG profiling of Indian corporates to attract foreign capital into the Indian debt capital markets

Says Gurpreet Chhatwal, Managing Director, CRISIL Ratings, "Reporting and assessment of environmental, social and governance, or ESG factors can also make domestic bond issuances attractive to global funds, and act as a crucial facilitator. The inclusion of Indian bonds in global indices will also help channel financing from global index funds to the domestic bond market."

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